

# *Drug Fair*

Cigarette Department  
Profitability Study  
September 1996

Presented By

*R. J. Reynolds Tobacco Company*

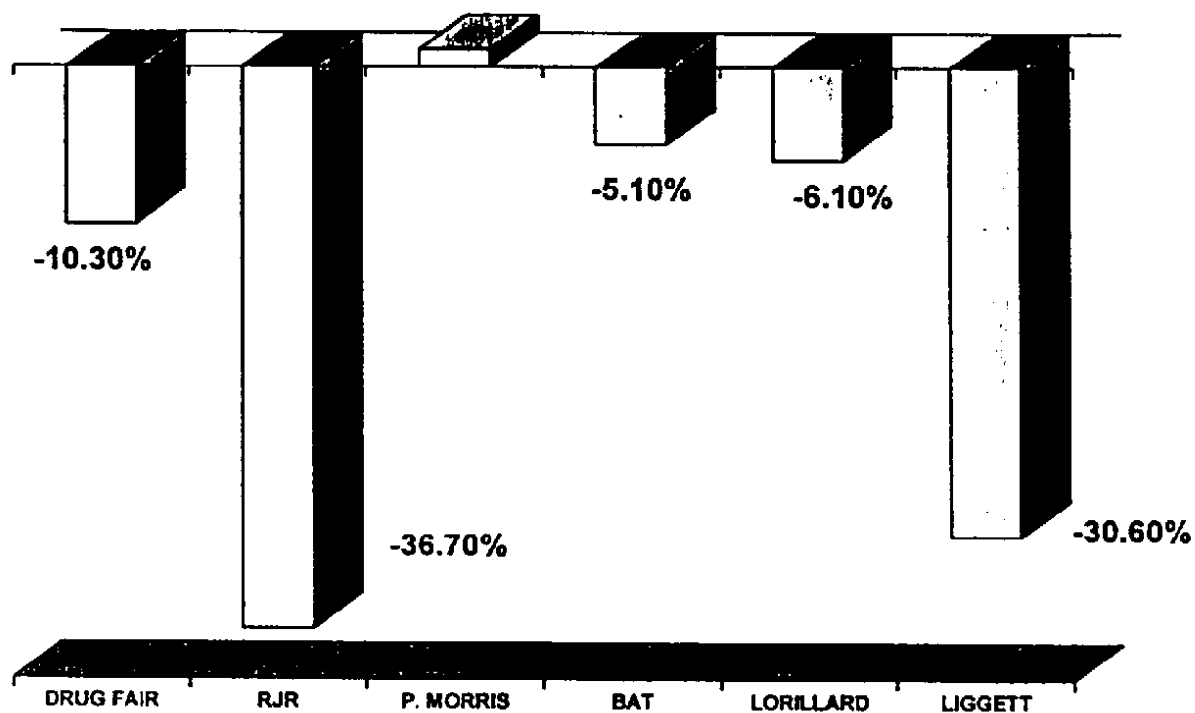
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## *Drug Fair*

### Issue

- Effective January 1996 an “Exclusive Merchandising” Contract was signed with Philip Morris.
- Drug Fair’s Cigarette Category Business has been on a continual downtrend during the year.
- The majority of the category loss has been in R. J. Reynolds Brand Line.

*Drug Fair*  
*Corporate/Manufacturer*  
*Volume Loss*



## *Drug Fair* *Cigarette Category Profitability*

### Input Data/Assumptions

- Total cartons shipped to stores 1995 163,652 cartons
  - 10% 1996 volume loss 16,365 cartons
  - Carton cost delivered to stores:
    - Full Price: \$ 16.60
    - Savings: \$ 13.79
  - Average Retail Prices
    - Packs: \$ 2.05/\$ 1.70
    - Cartons \$ 17.99/\$ 15.02
  - % sold
    - Packs: 39%
    - Cartons: 61%
    - Savings: 9%
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*Drug Fair*  
*Cigarette Category Profitability*

Lost Sales Calculation Assumptions

- Full Priced Cartons 14,892
  - Savings Cartons 1,473
  - Sales lost Full Price Carton 9,084
  - Sales Lost Full Price Pack 5,808
  - Sales Lost Savings Carton 898
  - Sales Lost Savings Pack 575
  - Average Selling Price/Carton- Full Price Packs \$ 20.50
  - Average Selling Price/Carton- Savings Packs \$ 17.00
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*Drug Fair  
Cigarette Category  
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	Net Sales	Net Profit
Full Price Cartons	\$ 163,421	\$ 18,804
Full Price Packs	\$ 119,064	\$ 26,601
Savings Cartons	\$ 13,488	\$ 1,616
Savings Packs	\$ 9,775	\$ 2,174
Total	\$ 305,748	\$ 49,195

*Drug Fair  
Cigarette Category  
Profitability Study*

<u>Gain</u>	<u>Loss</u>
<u>Retail Masters</u> + \$100,000	<u>Gross Profit</u> - \$ 49, 195 <u>RJR Retail Partners</u> - \$ 78,500

+ \$ 100,000      ←————→      - \$ 127,695  
                                         - \$ 27,695

## Conclusions.....

- The vast majority of Drug Fair's Cigarette Category loss is in the R. J. Reynolds Product Line due to the following factors:
  - Lack of display presence.
  - No RJR Promotions on Full Price or Savings (effective January 1)
  - Lack of availability to RJR's Customers
- Manufacturer "Exclusivity" has negatively impacted Category Sales and Profits. Philip Morris annual RDA monies have not offset the sales and profit losses.
- Cigarette purchasing customers are going elsewhere for promotions and perhaps other items.
- To reverse the business downtrend Drug Fair should allow all Cigarette Manufacturers to "co-exist" with
  - Product Promotions
  - Retail Display Programs

***...The very best all Manufacturers have to offer Drug Fair and its Customers!***

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